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C O N F I D E N T I A L SECTION 01 OF 04 YAOUNDE 001428

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TAGS: [CM](#) [ECON](#) [EMIN](#) [ETRD](#) [EINV](#) [ECOM](#) [PGOV](#) [PINR](#)

SUBJECT: HYDROMINE: AMERICAN DEAL-MAKER FOR CAMEROON'S BAUXITE RESERVES

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Classified By: PolChief Scott Ticknor for reasons 1.4 (d) and (e)

¶1. (SBU) Summary: Hydromine, an American project developer partnered with mining companies from the UAE and India, has been working since 2004 to develop Cameroon's multi-billion dollar bauxite resources and related infrastructure, including a railroad and deep water port. While the Prime Minister tells us he is supportive, the Ministry of Mines has raised questions that could jeopardize concluding a broad convention before the company's licenses expire in March 2008. Competition from an Anglo-Australian consortium (with former French and Canadian ties) and possibly a Chinese firm is also muddying the water for Hydromine. Given the increasing complexity of this deal, the Embassy has asked Hydromine to complete a Commercial Advocacy Questionnaire to lay the groundwork for likely continued USG engagement. End summary.

Cameroon's Bauxite Saga

¶2. (SBU) Prospective developers have battled over Cameroon's bauxite deposits (reportedly among the largest proven reserves in the world) for more than 15 years. In 2005 Massimo Campailla, an Italian national who was rumored to be close to President Paul Biya, sued the GRC in Luxembourg courts for \$2 billion, alleging breach of contract regarding his reported concession to identify partners and exploit bauxite in the Minim-Martap and Ngaoundal regions of Cameroon, deposits which have been known for at least 50 years. Press speculation suggested that French and Cameroonian officials associated with Pechiney, a French company reported to have very high level connections in French business and government circles, had scuttled the deal in order to retain their hegemony over aluminum production in Cameroon. At the time, Pechiney was the major stake-holder (with the Government of Cameroon) in ALUCAM, Cameroon's aluminum smelting operation. Pechiney, ALUCAM and Canadian company ALCAN have all been subsumed in Rio Tinto, an Anglo-Australian mining giant. On November 12, 2007, BHP

Billiton, an Anglo-Australian company, announced its intention to conduct a hostile takeover of Rio Tinto, but the deal still faces industry opposition and regulatory hurdles.

History of Hydromine in Cameroon

¶3. (C) Hydromine was founded as a project development company in Delaware in 2004 by Amcit Peter L. Briger, who also heads Briger and Associates, a New York City law firm. Hydromine first signed an agreement for mining exploration in Cameroon with then-Minister of Mines Henry Kibuh Tume in ¶2004. The company received exploratory licenses for the disputed tracts in Minim-Martap and Ngaoundal in agreements signed on March 9, 2005, by then-Minister for Mines Charles Sale (who replaced Kibuh Tume in a 2004 Cabinet shuffle and was dismissed this year, reportedly for demanding shares in the businesses with which he was dealing).

¶4. (SBU) In 2005 and 2006, according to documents Hydromine submitted to the GRC, Hydromine and its partners spent nearly \$5 million doing initial exploration and consulting, and lining up Dubai Aluminum Company (Dubal) and Indian company Hidalco Industries as its partners for the aluminum project, with the addition of Alminpro as a Canadian-based geological/engineering consultant. Hydromine says it has partnered with U.S. firm Parsons Brinkerhoff (for a port project) and dozens of other international firms in a bid to expand the overall project to include the mining facility, conversion and transport facilities, a deep water port, and a power plant. In 2006, Hydromine signed Cameroon's first-ever BOT agreement for the eventual construction of the Edea-Batanga rail line. Hydromine reports having been in contact with USTDA, EXIM, OPIC, and the Departments of Transportation and Energy about its project in Cameroon.

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The Convention

¶5. (C) Hydromine's exploratory licenses will expire in March 2008. Hydromine says it is prepared to invest \$20-25 million over the next two years but only if the Government of Cameroon (GRC) agrees to sign a Memorandum of Understanding (MOU) and Convention of Establishment detailing the relevant rights and obligations, not only for the mining venture but for related infrastructure projects. According to senior contacts in the Ministry of Mines, such a proposed convention is unprecedented in Cameroon, in part because it extends far beyond simple exploration or mining and includes diverse legal provisions (like land rights to construct a railroad) that are not linked to mining, and in part because Hydromine has done so little work on the site to date.

The PM's Take

¶6. (C) In October 2005, Prime Minister Inoni signed a far-reaching "letter of intent" with ALCAN, then the controlling share-holder of ALUCAM, that addressed various issues including the expansion of ALUCAM's smelting facilities, the provision of new electrical supply and the possibility of ALCAN's use of the bauxite reserves in Minim-Martap and Ngaoundal. According to Hydromine's Vice President in Cameroon, Cameroonian national Jean Pierre Ndongo Zanga, portions of the GRC's October 2005 agreement with ALCAN (now Rio Tinto) conflict with Hydromine's rights under the March 2005 agreement. A senior executive at Rio Tinto told Poloff on November 30 that ALCAN and Rio Tinto had also concluded that the agreements offered conflicting rights. (Comment: In our view, Hydromine's claim appears more solid since it has signed licenses from 2004, whereas

ALCAN's claim was based on a "political" statement made by the President during the visit of a senior ALCAN official, referring to "exclusive" mining rights. Then-Ambassador Marquardt repeatedly urged Prime Minister Ephraim Inoni to retract the political statement. The PM did not do so, and his 2005 "letter of intent" seems designed to avoid the risk of alienating ALCAN in light of the President's positive but ambiguous statement. End comment.)

¶17. (C) Nonetheless, Ndongo Zanga showed Poloff a photocopy of an August 14, 2007 letter from Secretary General at the Presidency Laurent Esso instructing Prime Minister Inoni to sign the convention with Hydromine. Ndongo Zanga also had a photocopy of a November 11, 2007 letter from Badel Ndanga Ndinga, the new Minister of Mines, recommending to the Prime Minister that he sign the convention.

¶18. (C) Prime Minister Inoni telephoned the Ambassador in the first week of November to express his desire to address lingering issues with the Hydromine dossier. In a November 7 meeting with the Ambassador, Prime Minister Inoni said that the GRC was reluctant to move forward with the MOU because in a number of areas Hydromine had failed to live up to its commitments to the GRC under the March 2005 agreement. On November 21, Inoni shared with the Ambassador a memo prepared at the PM's request by the Ministry of Mines detailing Hydromine's alleged shortcomings. Ambassador shared a translated version of the memo with Peter Briger, who countered that Hydromine had met and even exceeded its commitments under the 2005 agreement, and he promised to present Hydromine's response in writing to the PM.

¶19. (C) After receiving reports from Hydromine executives that the Minister of Mines was unwilling to meet with Peter Briger and that some GRC officials had become "hostile" to Hydromine's proposal, Ambassador met with Inoni on December 3 to request clarity on the GRC's position regarding the negotiations with Hydromine. Inoni clearly affirmed to the Ambassador that he remained committed to moving the Hydromine

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project forward, but complained that he was fighting against other (unnamed) officials in the cabinet who were unimpressed by Hydromine's meager progress to date and suspicious that Inoni, as an Anglophone, was too eager to push for a deal with any American company. Inoni asked the Ambassador to urge Briger to come to Cameroon as soon as possible to respond to criticisms of the Hydromine project (which she has communicated to Briger).

Competitors Active

¶10. (C) Hydromine alleges that a network of businessmen and officials linked to the former Pechiney network is seeking to undermine Hydromine's position. As proof of this effort, Hydromine officials furnished a letter signed by Celestin N'Donga, Technical Advisor at the Minister of Mines and Vice President of the "Cellule d'Appui au Programme Intgr de Mise en valeur des Gisements de Bauxite de Minim-Martap et Ngaoundal," wherein N'Donga demands that Hydromine deposit about \$100,000 in an account at Afriland First Bank (in the name of the Cellule) for "Assistance en Expertise" for the project. Ndongo Zanga says that this network includes senior officials at the Prime Minister's Office and the Presidency, whom he believes are aligned with Pechiney.

¶11. (SBU) On November 30 Prime Minister Inoni and Rio Tinto President for Primary Metals Jacynthe Cote signed an amendment to the October 2005 letter of intent. According to press reports, the deal provides additional access to water resources to enable Rio Tinto to move ahead with the construction of a 1,000 MW hydro-electric dam at Sonmbengue linked to the construction of a new smelting facility and the construction of a 330 MW hydroelectric dam at Nachtigal that

would allow expansion of the current smelting facility at Edea. If realized, the entire project would increase Rio Tinto's aluminum smelting capacity in Cameroon to 400,000 MT annually. In his December 3 meeting with the Ambassador, PM Inoni asserted that the GRC's agreement with Rio Tinto did not conflict with Hydromine's interests. However, Hydromine's Cameroonian Vice President had earlier told an Embassy official that the deal allowed Rio Tinto to lock up the water rights needed to construct the hydro-electric facility necessary for a new smelting operation, providing Rio Tinto with effective control over any prospective smelting operations in the region.

¶12. (C) According to a January 2007 local press report, the Chinese firm Hydro Corporation is pursuing the same resources as Hydromine. In their pursuit of the contract to construct a hydroelectric dam at Memve'ele, Hydro Corporation was the target of credible reports (from a Western mission) of corrupt dealings with former Minister of Economy and Finance Polycarpe Abah Abah. A senior executive with Rio Tinto confirmed to Poloff on November 11 that Hydro Corporation had sought to gain access to the bauxite reserves through corrupt relationships with (unnamed) cabinet officials. In addition, a December 4 press report indicates that Chinese parastatal Baosteel may make a competing offer for Rio Tinto to stave off the creation of a Rio Tinto-BHP conglomerate, which could potentially strengthen the hand of Hydro Corporation.

Comment: Moving Forward

¶13. (C) With a multi-billion dollar mineral deposit at stake and Cameroon's challenging business operating environment, we are not surprised by the competition, scrutiny and complicated politics involved in the Hydromine deal. The GRC is no doubt balancing its commitments to Hydromine and its equities with other companies in the aluminum sector here. That said, two other large foreign mining projects -- the cobalt mining project already in operation by American firm Geovic and the iron ore extraction project (with the same rail-port facets as Hydromine) run by

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Australian firm Sundance -- have advanced far beyond Hydromine without similar difficulties or controversy. Cameroonian private press outlets have carried stories highly critical of Hydromine, focusing on Hydromine's reported lack of experience in the mining business (which from our information, appears true). The enemies of Hydromine have always, and at every level, tried to discredit the company because it is a small player. We have countered that Hydromine is a classic deal-maker, bringing the expertise of other major partners to the table.

¶14. (C) One senior cabinet official well-known to the Embassy alleged that Hydromine had engaged in a corrupt relationship with former Minister of Mines Charles Sale, about whom post has received credible reports of corrupt dealings with other mining firms. We have not been able to substantiate this troubling claim nor are we able at this point to satisfactorily evaluate the GRC's claim that Hydromine has not lived up to its license commitments (and the company's counter-claim that it has). However, given these various claims and the increasing complexities and high profile of this deal, the Ambassador asked Briger to submit an Advocacy Questionnaire to the Department of Commerce; Briger readily agreed to do so. While Hydromine is an American entity, the American content of the eventual deal appears relatively small. Nevertheless, the USG has real interests in Cameroon's economic development and in fostering transparency and clean government, and the management of its bauxite reserves (and infrastructure offshoots) will have a major impact on the country's future.

GARVEY